

# Managing your financial future – in black & white




# Chapters...


**Growing your wealth – in black & white**



**Managing your debt – in black & white**



**Why super is important – in black & white**




**Protecting your lifestyle (insurance) – in black & white**



**Understanding estate planning – in black & white**



**Planning for retirement – in black & white**



**Growing your wealth – in black & white**



# Growing your wealth – in black & white



# Important Notice

Any advice in this presentation has been prepared without taking into account your objectives, financial situation and needs. You should consider whether it is appropriate having regard to your personal circumstances before making any financial decisions.

If you are considering acquiring a financial product you should obtain the relevant product disclosure statement before making any decision.

Any information about taxation in this presentation is factual information or general advice only and does not consider the application or interpretation of any taxation laws to your personal circumstances. If you require taxation advice you should seek advice from a registered tax agent or a registered tax (financial) adviser.



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# Financial Literacy: Test

You have \$100 in a savings account earning 2 percent interest a year. After 5 years, how much would you have?

- A. More than \$102
- B. Exactly \$102
- C. Less than \$102
- D. Don't know




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# Financial Literacy: Test

Imagine that the interest rate on your savings account is one percent a year and inflation is two percent a year. After one year, would the money in the account buy more than it does today, exactly the same or less than today?

- A. More
- B. Same
- C. Less
- D. Don't know




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# Financial Literacy: Test

Buying shares in a single company usually provides a safer return than buying units in a managed share fund?

- A. True
- B. False
- C. Don't know



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# Investment basics



## WHERE ARE YOU NOW?

Budget basics  
Net worth  
Psychology of investing



## WHERE DO YOU WANT TO GO?

Investing goals  
Risks  
Power of compounding



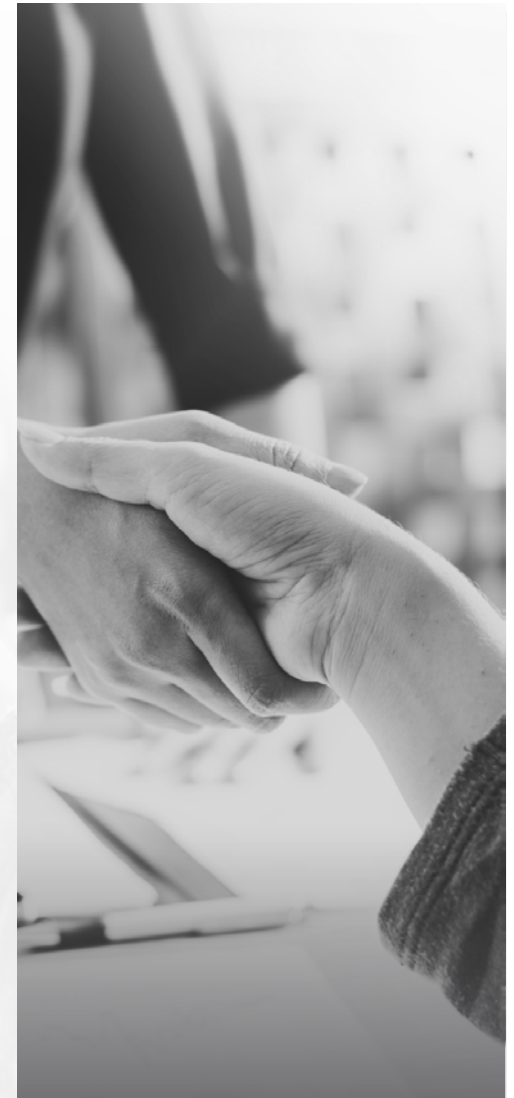
## HOW ARE YOU GOING TO GET THERE?

Investment structure  
Asset classes  
Borrowing to invest



## A PERSONAL INVESTMENT PLAN

Strategy  
Methodology  
Managing your wealth



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# Where are you now?



# Where are you now?

1

Know your financial position

2

Clear your credit card debt

3


Sort out your super

4

Consider getting financial advice

5

Plan your investments



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# Steps to take control of your money



## ASIC Moneysmart – budget planner

- Budget your expenses
- Understand your cost of living
- Pay credit card off monthly
- Determine your capacity to save (income minus living expenses)
- Aim to save 10-20% of your gross income

<https://www.moneysmart.gov.au/media/392764/managingyourmoney.pdf>



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# Net worth

Assets	
Home	\$750,000
Car	\$10,000
Bank Account	\$20,000
Super	\$300,000
Shares	\$50,000
<b>Total Assets</b>	<b>\$1,130,000</b>

Liabilities	
Home Mortgage	\$450,000
Car loan	\$10,000
Credit Card Debt	\$5,000
Student loan (HECS-HELP)	\$20,000
<b>Total Liabilities</b>	<b>\$485,000</b>

**Total Net Worth**

**\$645,000**

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# Cash Flow Management



## Debt reduction

Inefficient/Efficient debt

Increase regular  
repayments

Pay off credit card monthly



## Savings Plan

Holiday

New car

First home

Look to save 10-20% of gross  
income



## Budgeting

Track your spending

Create a budget

Pay yourself first (PYSF)



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# Cash Flow Management



## Primary Income

- Salary/Wage



## Secondary Income

- Salary/Wage



## Passive Income

- Dividends
- Rental
- Interest



## Cash Management or high interest Account

High Interest  
Capture savings 10-20% of gross income  
Only distribute income required



Mortgage



Living  
Expenses

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# Psychology of investing

Are you emotionally attached to your investments?

What losses are you prepared to take?

Are you searching for a Holy Grail or a Guru?



Source: Westcourt Funds



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# Where do you want to go?





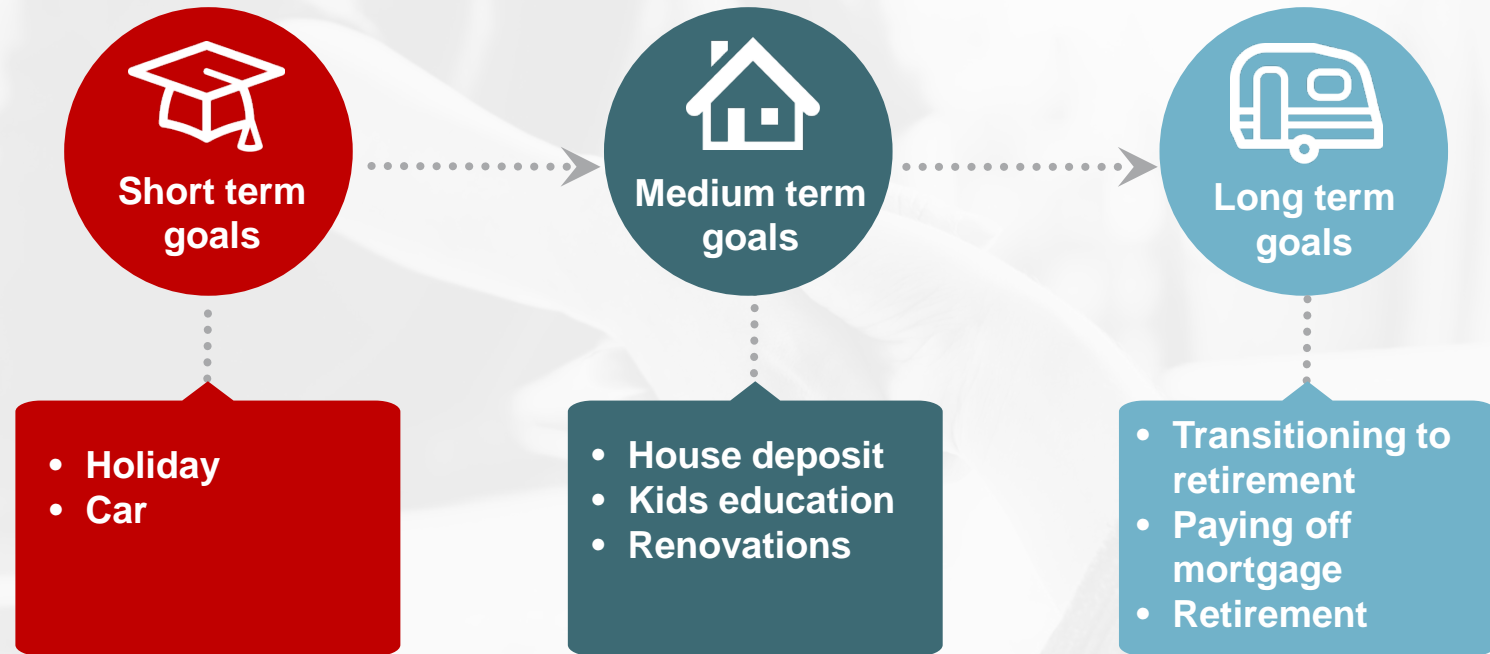
# Investment considerations



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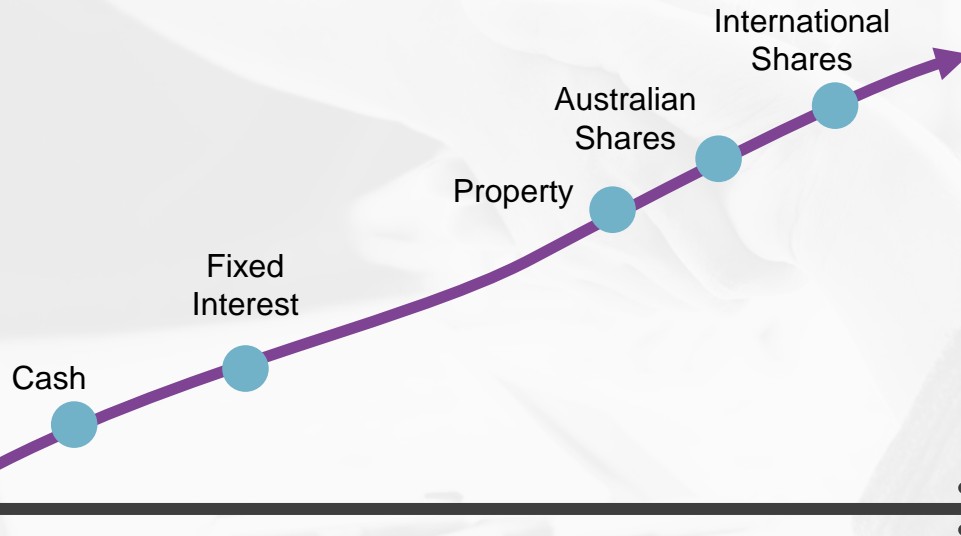
# Establish your investment goals



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# Risk vs return



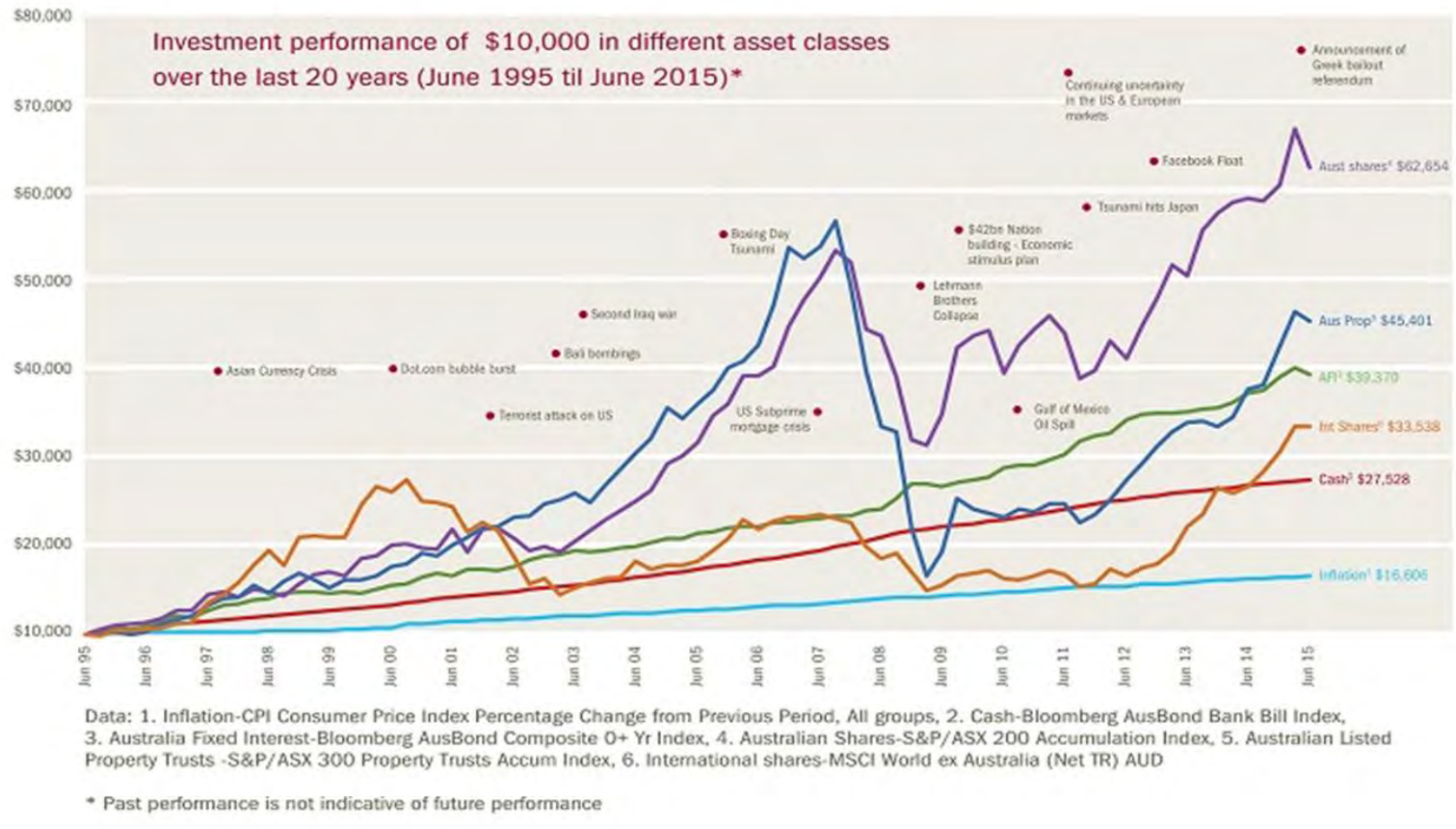
Return



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# How have the asset classes performed?



Source: Bloomberg



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# Diversification

- High interest cash account
- Term Deposits
- Short Term Money market



- Industrial
- Residential
- Domestic/ International



- Domestic/ International
- Government
- Corporate



- Sectors
- Domestic/ International
- Core/Satellite
- Income/Growth



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# Compound interest

Albert Einstein: *'The most powerful force in the universe'*

## COMPOUND INTEREST:

$$\text{where : } A = P \left( 1 + \frac{r}{100} \right)^n$$

*A = total amount after n years*

*P = principal or original value*

*r = rate of interest per annum*

*n = number of years the money is invested*



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# Power of compounding

Would you prefer \$1 million dollars today or receive a cent today and double that amount for the next 30 days?

DAY	VALUE	DAY	VALUE
1	\$0.01	27	\$671,088
2	\$0.02	28	\$1,342,177
3	\$0.04	29	\$2,684,354
4	\$0.08	30	\$5,368,709

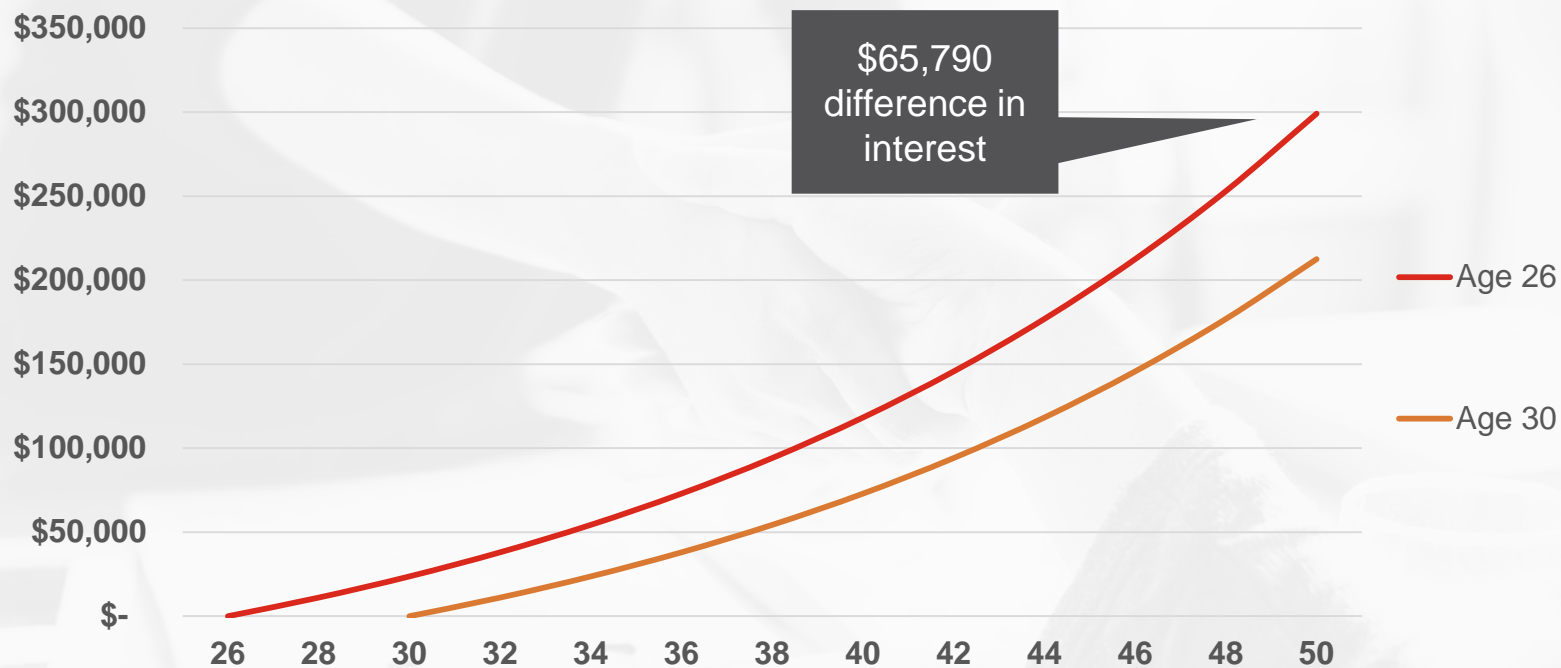
Source: <https://www.moneysmart.gov.au/managing-your-money/saving/compound-interest>



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# Compound Interest



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# Dollar cost averaging



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# Dollar cost averaging

Dollar cost averaging is an investment technique of buying a fixed dollar amount of a particular investment on a regular schedule, regardless of the price. The investor purchases more shares when prices are low and fewer shares when prices are high. As this table shows, dollar cost averaging can result in a better average share price than trying to time your purchase.

Month	Share Price	Investment	Shares purchased
January	\$10	\$100	10
February	\$7	\$100	14.3
March	\$6	\$100	16.7
April	\$8	\$100	12.5
May	\$9	\$100	11.1
<b>Total</b>	<b>\$8 average</b>	<b>\$500</b>	<b>64.6</b>

*Dollar cost averaging does not ensure a profit or guarantee against loss in declining markets. For the strategy to be effective, you must continue to purchase shares both in market ups and market downs.*

*Source: <https://www.commmsec.com.au/support/learn/investing-basics/what-is-dollar-cost-averaging>*



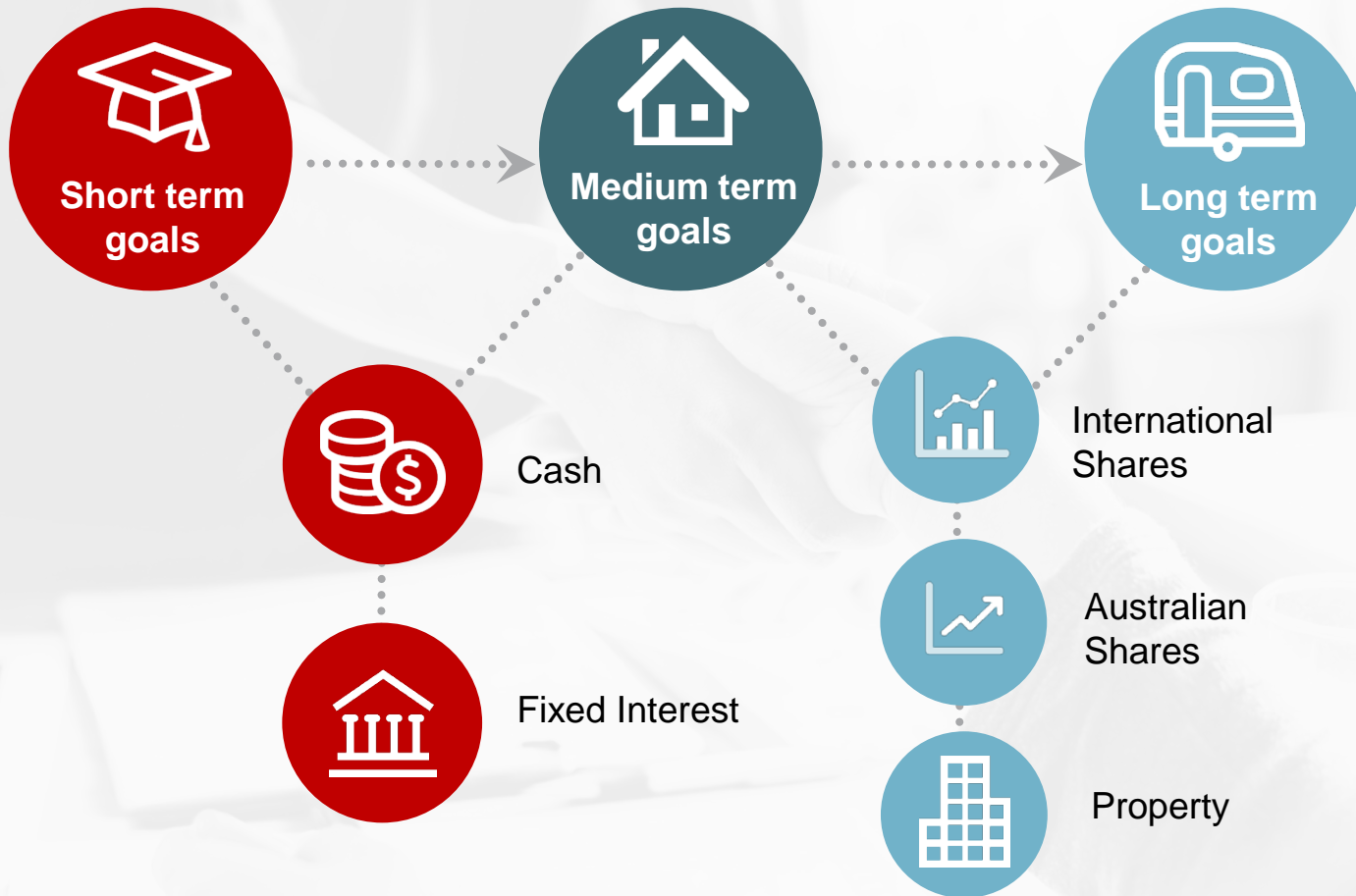
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# How are you going to get there?

# Asset classes



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# Asset Types

Australian  
Equities

International  
Equities

Property

Private  
Markets

Hedge funds

Alternative  
Debt

Infrastructure

Cash

Australian Fixed  
Interest

International  
Fixed Interest

**Growth**

**Defensive**

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# Characteristics of Asset Types



## Shares

Growth/income  
Volatility  
Long term  
investment  
Tax effectiveness  
Flexibility



## Property

Growth/Income  
Long Term  
investment  
Value  
fluctuations  
Inflexible




## Fixed Interest

Generally  
Income only  
Low risk/return  
Inflexible



## Cash


Income only  
Low  
risk/return  
Flexibility



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# Direct vs Indirect


Direct

Ownership
Control
Flexible/inflexible

## Examples

- Shares
- Property
- Term Deposit
- Cash

## How

- Broker/Online/  
Public Offering
- Agent
- Financial institution

Indirect

Diversification
Flexibility
Access to investment markets otherwise unavailable

## Examples

- Managed Fund
- ETF
- Superannuation

## How

- Financial Adviser
- Financial Institution
- Prospectus/ PDS



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# Exchange Traded Funds (ETFs)



Client invests in an ETF or low cost index fund, which generates a return to the client after fees



Managed by Fund Manager



- Fund manager covers its costs
- No outside owners = Clients keep more of any returns a fund earns

Source: Vanguard



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# Income or Growth

## Income



- Generate cash flow/passive income
- Income Tax
- Potentially higher yield
- Lower or minimal growth prospects

## Growth



- Increase in capital value
- Capital Gains Tax (CGT)
- Potentially higher return
- Generally lower yield



Shares  
Property  
Fixed Interest  
Cash

Shares  
Property  
ETFs  
Managed Funds

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# Shares



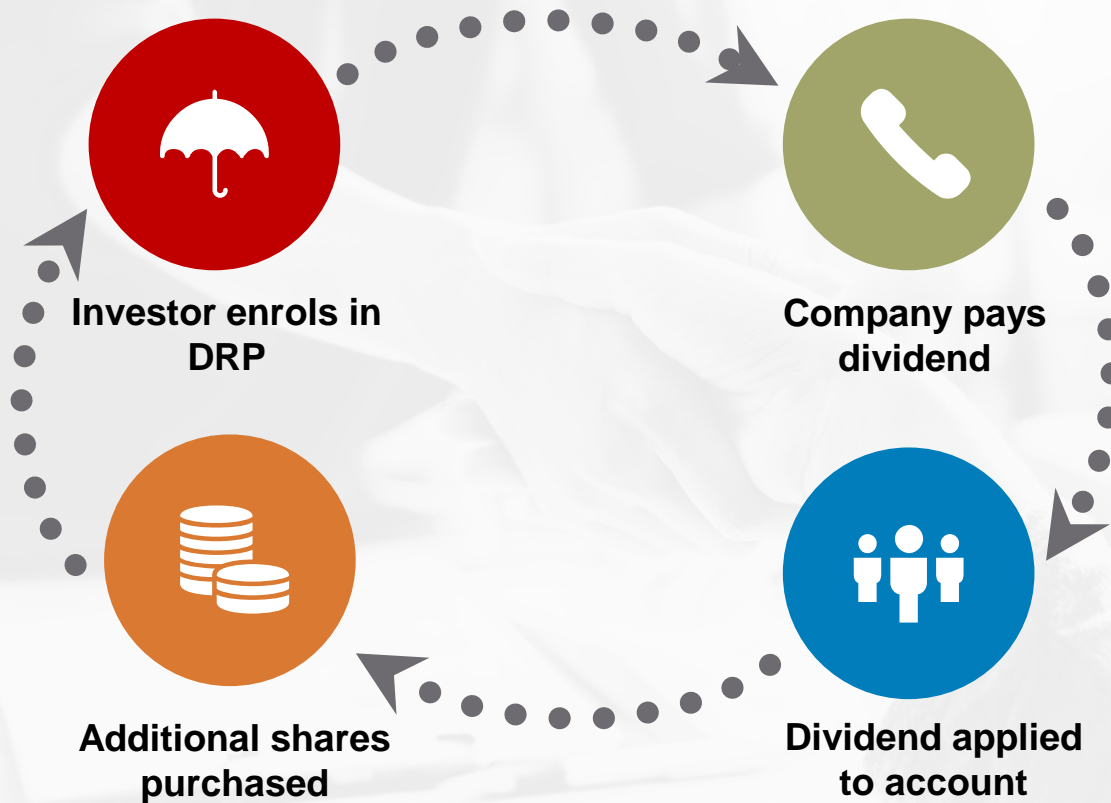
- Ownership in a company
- Capital growth (or decline)
- Potential income distribution (via dividends)
- High volatility



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# Dividend Reinvestment Plan (DRP)



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# Property



PROPERTY

- Ownership in real estate (property)
- Capital growth (or decline)
- Potential income distribution (via rental returns)



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# Borrowing to invest



## Investment Property



## ETFs



## Share Portfolio



## Managed Funds

Gearing strategy  
Diversification  
Broad range of assets  
Flexibility  
Fees & charges

Gearing strategy  
Income – dividends  
Growth potential  
Brokerage

Gearing strategy  
Diversification  
Broad range of assets/markets  
Flexibility  
Fees & charges

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# Borrowing to invest



## Investment Property

Positive or negative gearing  
Income and expenses  
Property management and maintenance



## Negative Gearing

Investment income is **less** than interest and expenses



## Positive Gearing

Investment income is **greater** than interest and expenses



## Margin Loans

Using shares &/or managed funds as security to borrow to invest



## Margin calls

Loan to valuation ratio dropped below a certain level



## Leverage

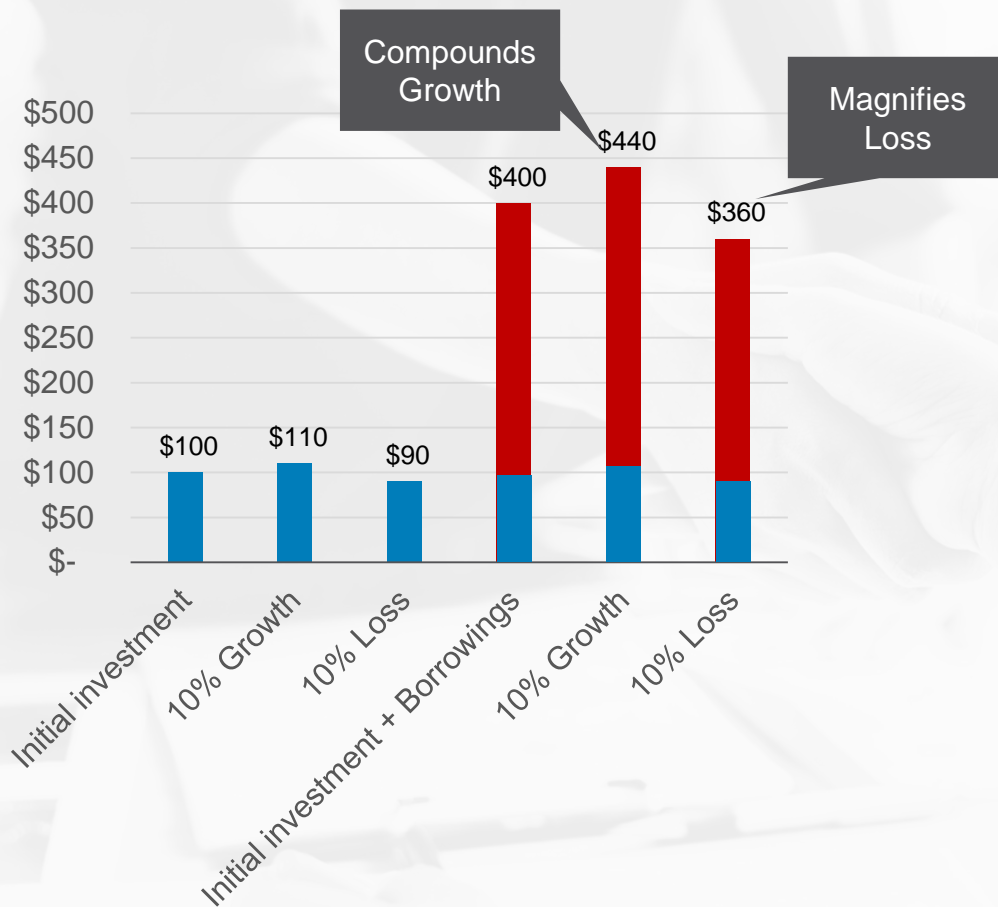
Ability to utilize existing assets for further borrowing/purchases



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# Borrowing to invest



- Interest
- Negative gearing
- Loan to valuation ratio (LVR)

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# Your goals and investment structure



## Superannuation

Funding retirement  
Paying off debt at retirement  
Tax benefits



## Personal

Simple and low cost  
Negative gearing  
Potential high tax



## Company

Lower tax rates  
Asset Protection  
Higher costs



## Family Trust

Income distribution  
Tax benefits  
Beneficiaries



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# Taxation



## **SUPERANNUATION**

A tax-advantaged environment  
Concessional tax rates apply  
Tax-free on drawdown from age 60



## **PERSONAL**

Marginal tax rates (MTR) apply  
Capital Gains Tax (CGT)  
CGT discount may apply



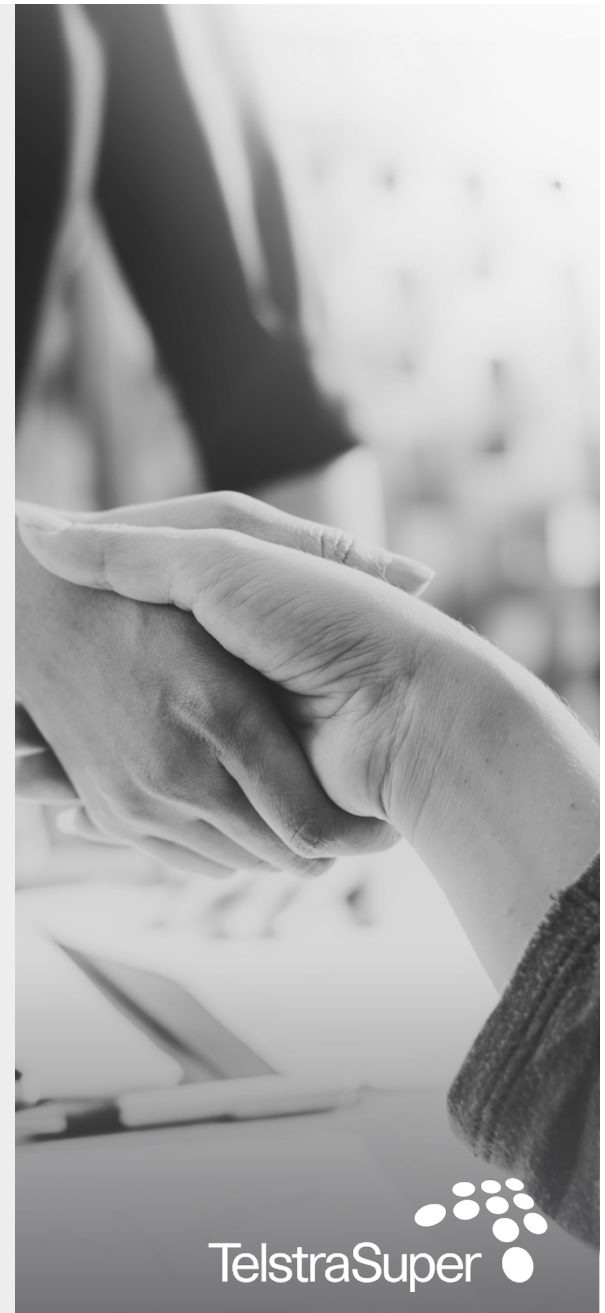
## **COMPANY**

Income and capital gains taxed at flat rate  
Generally no CGT discount



## **FAMILY TRUST**

Ability to distribute income  
Income and capital gains taxed at marginal  
rate of beneficiary(s)  
CGT discount may apply



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# Strategies for a personal investment plan

# Strategies

01

## CASH FLOW MANAGEMENT

Pay yourself first (PYSF)  
Controlling your spending  
Paying your bills on time

02

## DIRECT VS. INDIRECT

Direct – ownership of investment/asset  
Indirect – pooled investment

03

## BORROWING TO INVEST

Commonly referred to as negative gearing  
Investment loans – property or shares  
Margin lending – shares or managed funds

04

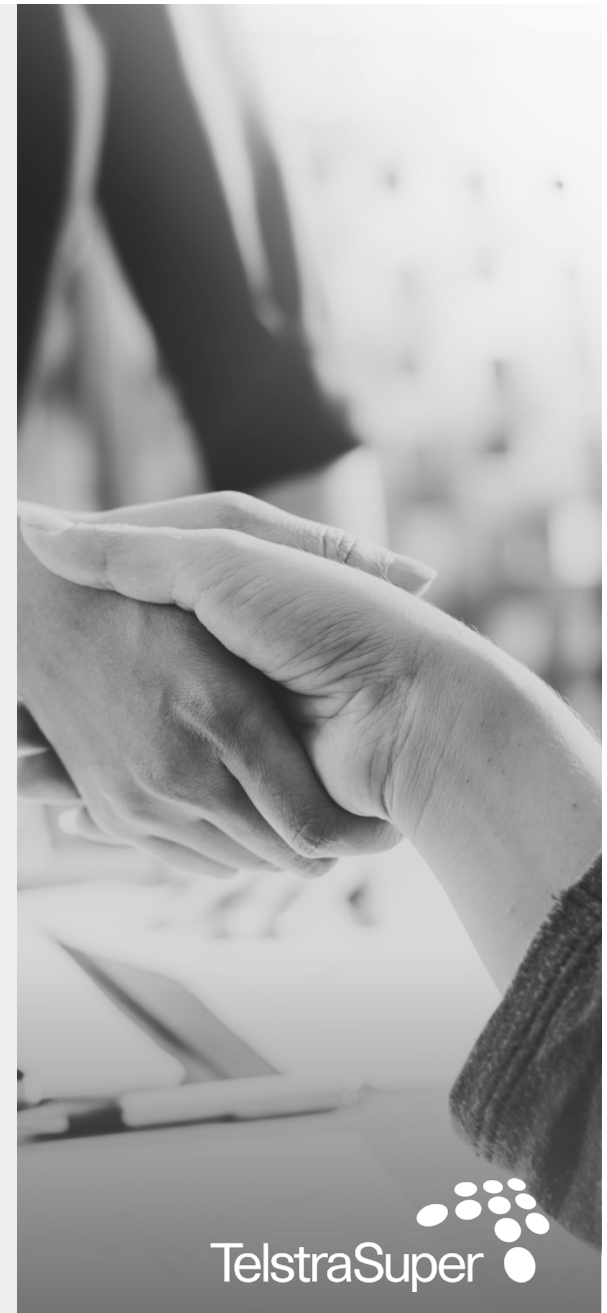
## DIVIDEND REINVESTMENT PLAN

Receive dividends as additional shares (sometimes at a discounted price)  
Compound investment  
Franking credits

05

## INCOME OR GROWTH

Income – provides passive income  
Growth – emphasis on capital appreciation



# Summary



# Keep on track

01

## **BUDGET**

Set up your budget to make sure your money goes where you want it to.

02

## **PAY OFF DEBT**

See how much you'll save by repaying your debts faster.

03

## **INVEST WISELY**

Start planning your investments.

04


## **SEEK ADVICE**

Navigate the financial advice process with confidence.




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# Useful tools


 ASIC Moneysmart website:  
[www.moneysmart.gov.au/](http://www.moneysmart.gov.au/)

 Thomson Reuters Cleardocs

 [www.investors.asn.au](http://www.investors.asn.au)

 [www.netactuary.com.au/](http://www.netactuary.com.au/)  
Calculators

 [www.superannuation.asn.au/](http://www.superannuation.asn.au/resources/retirement-standard)  
resources/retirement-standard


 1300 033 166

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# Thank you



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# Chapter 2 Managing your debt – in black & white

